

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

Agency (Department) Name California Air Resources Board	Contact Person Emily Wimberger	Mailing Address 1001 I Street Sacramento, CA 95814
Email Address ewimberg@arb.ca.gov	Telephone Number (916) 327-5932	

- 1. Statement of the need for the proposed major regulation.**

California has ongoing authority, pursuant to the federal Clean Air Act to issue its own standards for motor vehicle emission control. California's greenhouse gas (GHG) emissions programs for light-duty vehicles (passenger vehicles) are a fundamental component of the State's strategy to protect the health of its citizens and its natural resources from the threats of climate change. Recognizing the value of a nationwide program, California has accepted compliance with federal GHG emission standards adopted by the U.S. Environmental Protection Agency (U.S. EPA) for 2012 through 2025 model years. The California Air Resources Board (CARB) adopted the so-called "deemed to comply" provisions because the federal standards, at the time, would deliver equivalent GHG emission reductions as California's standards.

This year, the U.S. EPA announced that the federal GHG standards are not appropriate, "may be too stringent", and should be changed. In light of these pronouncements, it is reasonably foreseeable that the U.S. EPA will take further steps to relax the federal GHG emission standards. Abandoning the current federal standards could substantially slow progress towards the emissions reductions needed to address the serious threat climate change poses to California, the country, and the world. California must act to guard against this risk to ensure it can maintain the benefits of its emission standards. The proposed amendments clarify that the "deemed to comply" option is available only for the currently adopted federal GHG regulations (as of April 2, 2018, the date of the revised Final Determination).
- 2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.**

The proposed amendments leave the current regulatory conditions intact. The Board is not aware of any economic impacts that an individual or business would incur due to the proposed amendments because the proposal does not contain any requirements for action. The proposed amendments will have no statewide economic impact affecting businesses and individuals, including the ability of California businesses to compete with businesses in other states, the creation or elimination of jobs, the creation of new businesses or elimination of existing businesses, or the expansion of businesses currently doing business within the State of California.
- 3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).**

The proposed amendments leave the current regulatory conditions intact. Accordingly the proposed amendments will not have an economic impact on California businesses and individuals compared to a baseline of current conditions.
- 4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.**

The proposed amendments do not qualify as major, because they would leave current regulatory conditions intact. Accordingly the proposed amendments will not have an economic impact on California businesses and individuals compared to a baseline of current conditions, and formal requirements for major regulations do not apply. However, given the importance of the LEV III vehicle greenhouse gas emission regulation, and the public interest in motor vehicle emission standards, CARB is voluntarily providing an extended economic analysis of the program of a rigor similar to those offered in a Standardized Regulatory Impact Assessment, or SRIA. Moreover, due to the uncertainty as to which actions U.S. EPA might take to weaken the currently adopted federal standards for the 2022 through 2025 MYs, a sensitivity analysis was developed (Appendix A of the SRIA Equivalent Document) to examine the potential range of economic impacts that might occur if U.S. EPA relaxes its standards. This is in addition to the economic analysis of the proposed amendments and the two alternatives.

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5. Description of the agency's baseline:

The baseline consists of full compliance with all current State and Federal vehicle regulations and CARB determined the Federal GHG emission standards as of April 2, 2018 are the appropriate baseline from which to assess the economic impacts of the proposed amendments.

The baseline assumes that the federal GHG emission standards and the California LEV III GHG emission standards match those on April 2, 2018 (as last amended on October 25, 2016). Under the existing LEV III GHG regulation, automakers are provided the option of complying with the federal GHG emission standards for MYs 2017 through 2025 as an alternative to complying with the California standards. All manufacturers are currently exercising the option of complying with the federal GHG emission standards and are expected, as a baseline, to continue to exercise this option through 2025.

Compliance with the California zero-emission vehicle (ZEV) regulation was also considered in the baseline. The ZEV regulation requires an increasing percentage of new car sales to be ZEVs through MY 2025. Modeling compliance with the ZEV regulation is important to accurately quantify the impacts of the proposed GHG standards and alternatives because the more ZEVs a manufacturer has in its fleet, the fewer improvements need to be made to the non-ZEV fleet to meet an overall fleet-wide average GHG emission requirement. Full compliance with the ZEV regulation was included in the baseline by estimating the annual minimum number of ZEVs necessary to meet the ZEV regulation for each manufacturer and model year through 2025. For perspective, the ZEV regulation requires approximately 8 percent of new vehicles in 2025 to be ZEVs based on the mid-range compliance scenario from the Midterm Review. It is possible that individual manufacturers could choose to sell more ZEVs than the minimum needed for compliance because of other business or market choices. This would change their compliance costs for the proposed amendments and alternatives. However, this analysis assumes only compliance, but not over compliance, with regulations in place as required by SB 617 (Chapter 496, Statutes of 2011) and to provide a conservative estimate of the economic impacts of the proposed amendments and alternatives.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

- All costs and all benefits of the alternative
- The reason for rejecting alternative

Alternative 1: Eliminate the "Deemed to Comply" option for MYs 2022 through 2025 and increase the stringency of the California GHG emission standards for MYs 2024 and 2025

a. Alternative 1 provides additional GHG emissions reductions and additional improvements in local air quality compared to the baseline, which will lead to additional health benefits. Under Alternative 1, cumulative CO2 emissions from the on-road light-duty fleet would be reduced by 9.46 million metric tons (MMT) from 2021 to 2030 relative to the baseline and there would be additional fuel savings of \$4.4 billion. Costs associated with Alternative 1 include \$867 million due to increases in new vehicle prices and decreases in State and local government tax revenue totaling \$774 million, primarily resulting from decreased fuel tax revenue.

b. Based on the analysis, it appears that Alternative 1 is technically feasible and could provide additional GHG emission benefits at reasonable cost compared to the proposed amendments. However, this alternative was rejected at this time because CARB prefers to maintain regulatory stability for the automotive industry for the models years of the current program, while focusing on the development of new GHG emission standards for MY 2026 and beyond.

Alternative 2: Eliminate the "Deemed to Comply" option and weaken the stringency of California Standards

a. Alternative 2 flat-lines the standards at MY 2021 levels. Effectively, manufacturers would be able to stop adding new GHG reducing technologies beyond MY 2021. Alternative 2 results in additional GHG emissions and adverse impacts in local air quality, leading to additional health impacts. Under Alternative 2, less stringent vehicle emission standards would increase CO2 emissions by 49.34 MMT from 2021 to 2030 relative to the baseline and result in an additional \$22.8 billion in fuel expenditures. Under Alternative 2, there would be increases in State and local government tax revenue totaling \$2.8 billion primarily due to increased fuel sales, and purchasers of new vehicles would see cost savings of approximately \$19.8 billion due to lower new vehicle prices.

b. This alternative was rejected because there would be a significant loss of environmental benefits if CARB decreases the stringency of the LEV III GHG regulation. This loss in GHG emission reductions would severely hamper progress towards the state's GHG targets for 2030 and 2050 and the loss in criteria pollutant reductions would hinder the state's plans to achieve compliance with national ambient air quality standards. Additionally, while new vehicle owners could initially see savings in the reduced purchase price of the vehicle, increased fueling costs for the operation of the vehicle over its life would significantly outweigh these initial savings resulting in a net increase in costs relative to the proposed amendments for new vehicle owners.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

On May 7, 2018 CARB issued a notice requesting input by May 31, 2018 on potential alternatives to the proposed amendments. The notice can be found at:

https://www.arb.ca.gov/msprog/levprog/leviii/leviii_dtc_notice05072018.pdf.

CARB has reviewed the comments and will consider them going forward as it develops a regulatory proposal for the Board.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The proposed amendments would have no economic impact, but the two alternatives described above and the sensitivity analysis, included in Appendix A of the SRIA Equivalent Document, would have economic impacts including changes to the price of new vehicles, fuel expenditures, tax revenue, and health care spending. These scenarios are simulated in REMI for the years 2021 through 2030. Changes in vehicle prices and fuel expenditures impact individuals, businesses, and government. Changes in vehicle expenditures are modeled as a change in consumer price of new motor vehicles, change in production costs for businesses, and a change in State and local government spending. Changes in fuel expenditures are modeled as a change in consumer spending on motor vehicle fuels and lubricants, a change in residual fuel costs for businesses, and a change in State and local government spending.

Changes in fuel and sales tax revenue is modeled as a change in government spending, with increased tax revenue modeled as an increase in government spending. The monetized value of changes in emergency room visits and hospitalizations are modeled as a change in consumer spending on hospital services.

Agency Signature

Date

Agency Head (Printed)

Richard Corey

6/7/2018